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# Message Text

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ORIGIN EUR-12

INFO OCT-01 ARA-06 EA-07 ISO-00 SS-15 EB-08 TRSE-00
NSC-05 SIG-01 OMB-01 AID-05 IGA-02 CIAE-00
DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00 PA-01
PRS-01 SP-02 NSCE-00 SSO-00 USIE-00 INRE-00
COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 /095 R

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EA/J/DSMITH
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E/RCOOPER
EB/PBOEKER
EUR/RPE/AALBRECHT
TREASURY/DSYVRUD
NSC/RHUNTER
S/S- MR. SEBASTIAN
----------210203Z 032855 /22
O 202054Z APR 77
FM SECSTATE WASHDC
TO AMEMBASSY BERN IMMEDIATE
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INFO AMEMBASSY LISBON IMMEDIATE
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E.O. 11652: GDS

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TAGS: EFIN, PO

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: LISBON 2002

1. SUMMARY. AFTER TWO YEARS OF ECONOMIC AND POLITICAL DISORGANIZATION, PORTUGAL HAS BEGUN A POLITICALLY COURAGEOUS ECONOMIC STABILIZATION PROGRAM TO RESTORE HEALTH TO ITS SOCIETY AND RECONFIRM PORTUGAL'S PLACE IN EUROPE. UNFORTUNATELY, FOREIGN EXCHANGE SHORTAGES AND CONTINUING DEFICITS DURING THE STABILIZATION EFFORT THREATEN PORTUGA"S NEW AND RELATIVELY UNTRIED DEMOCRATIC INSTITUTIONS. AT THE REQUEST OF THE PORTUGUESE GOVERNMENT AND IN COOPERATION WITH IT, WE ARE COORDINATING A PROGRAM OF MEDIUM-TERM FINANCIAL ASSISTANCE FOR THE NEXT 12-15 MONTHS, TO BE FOLLOWED BY FINANCING FROM APPROPRIATE (MULTILATERAL AND OTHER) SOURCES IN LATE 1978 AND 1979, IF NEEDED. YOU SHOULD FORMALLY REQUEST EARLY INDICATION OF SUPPORT BY YOUR HOST GOVERNMENT IN A MULTILATERAL LENDING ARRANGEMENT AS OUTLINED BELOW.

2. BACKGROUND
A. WHETHER THE PORTUGUESE GOVERNMENT WILL FINALLY PREVAIL OVER THE COMMUNISTS AND THE EXTREME RIGHT WILL DEPEND IN

LARGE PART ON ITS ABILITY TO GET A GRIP ON AN ECONOMY BATTERED BY TWO YEARS OF REVOLUTION, LOSS OF COLONIAL MARKETS, ABSORPTION OF ABOUT 500,000 REFUGEES AND THE CONFIDENTIAL



1972-75 RECESSION IN THE INDUSTRIAL DEMOCRACIES. THE SOARES GOVERNMENT IS COURAGEOUSLY ADOPTING THE POLITICALLY DIFFICULT BUT NECESSARY AUSTERITY MEASURES, INCLUDING: MEASURES TO IMPROVE LABOR DISCIPLINE AND PRODUCTIVITY; MEASURES TO STIMULATE INVESTMENT BY RESTORING PRIVATE SECTOR CONFIDENCE; ACTIONS TO ELIMINATE COMMUNIST DOMINANCE IN THE LABOR SECTOR AND IN AGRICULTURALLY IMPORTANT SOUTHERN PORTUGAL; INCREASED PRICES FOR GOVERNMENT SERVICES AND CUTS IN SUBSIDIES; AND PROPOSED RESTRAINTS ON WAGES TO HOLD INCREASES BELOW THE RATE OF INFLATION. DURING DECEMBER 27-30 THE NATIONAL ASSEMBLY APPROVED AN ECONOMIC STABILIZATION PLAN FOR 1977 AND A BUDGET DEFICIT 20 PERCENT LESS THAN IN 1976 IN REAL TERMS. ON FEBRUARY 25 THE PORTUGUESE GOVERNMENT ANNOUNCED AN ADDITIONAL PACKAGE OF ECONOMIC MEASURES, INCLUDING A L5 DEVALUATION OF THE ESCUDO AND PRICE INCREASES FOR MANY BASIC NECESSITIES. THESE STEPS ARE AN IMPORTANT BEGINNING TO A BROAD ECONOMIC STABILIZATION AND RECOVERY PROGRAM.

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B. HOWEVER, PORTUGAL HAS AN ACUTE FOREIGN EXCHANGE SHORT-AGE AND--DESPITE THE MEASURES TAKEN AND FURTHER STEPS THAT WILL BE TAKEN--WILL LIKELY CONTINUE TO SUFFER FOR ANOTHER TWO OR THREE YEARS FROM BALANCE OF PAYMENTS PROBLEMS THAT WILL NOT BE MET BY FORESEEABLE PRIVATE OR CURRENTLY AVAIL-ABLE OFFICIAL SOURCES OF FINANCING. WE ESTIMATE PORTUGAL WILL NEED $600 TO $800 MILLION IN BALANCE OF PAYMENTS ASSISTANCE IN THE 12-15 MONTH PERIOD BEGINNING IN MID-1977. THIS AMOUNT OF BALANCE OF PAYMENTS ASSISTANCE IS NEEDED OVER AND ABOVE PROJECTED COMMERCIAL AND PROJECT FINANCING.

3. PROPOSED ASSISTANCE

A. THE U.S. IS PROPOSING THE FORMATION OF A COORDINATED INTERNATIONAL LENDING EFFORT TO ASSIST PORTUGAL IN MEETING ITS BALANCE OF PAYMENTS DIFFICULTIES OVER THE NEXT 12 TO 15 MONTHS, WHILE IT IMPLEMENTS AN ECONOMIC PROGRAM WHICH CONFIDENTIAL



WILL ULTIMATELY QUALIFY PORTUGAL FOR SUBSTANTIAL DRAWINGS ON THE IMF. WE WOULD EXPECT THE TERMS AND CONDITIONS OF LOANS BY ALL PARTICIPANTS WOULD BE BROADLY COMPARABLE AND WORKED OUT JOINTLY BY THE PORTUGUESE GOVERNMENT AND THE PARTICIPANTS POSSIBLY IN CONSULTATIONS WITH THE IMF.

B. THE ORIGINAL IDEA OF A THREE-YEAR $1.5 BILLION CONSORTIUM HAS BEEN MODIFIED TO ADDRESS ONLY PORTUGAL'S

FINANCING NEEDS OVER THE NEXT 12 TO 15 MONTHS. THESE CHANGES WERE INTRODUCED IN THE LIGHT OF ON-GOING FINANCIAL DISCUSSIONS OF POTENTIAL INITIATIVES IN THE IMF WHICH INDICATE THAT PORTUGAL'S NEEDS DURING 1979 AND 1980 MIGHT BE MET IN LARGE PART FROM THE IMF. THE 12-15 MONTHS FINANCING PROPOSAL GIVES PORTUGAL THE NECESSARY TIME TO IMPLEMENT THE ECONOMIC REFORM MEASURES WHICH ARE REQUIRED FOR ALTERNATIVE SOURCES OF MULTILATERAL OFFICIAL FINAN-CING.

C. WE BELIEVE THAT IMMEDIATE ACTION ON AN INTERNATIONAL BALANCE OF PAYMENTS ASSISTANCE PROGRAM IS CRITICAL FOR PORTUGUESE POLITICAL STABILITY AND ECONOMIC RECOVERY. GIVEN THE SUBSTANTIAL FINANCING REQUIRED AND PORTUGAL'S FINANCIAL SITUATION, CREDITS SHOULD BE PROVIDED ON A MEDIUM-TERM BASIS AND AT MARKET-RELATED INTEREST RATES. SUCH A PROGRAM, JUSTIFIABLE ON ECONOMIC GROUNDS, HAS AC-QUIRED AN ADDED POLITICAL SYMBOLISM THAT CAN BE IGNORED ONLY AT GREAT PERIL TO PORTUGUESE DEMOCRACY.

D. THE PRESIDENT HAS REQUESTED THE U.S. CONGRESS TO AUTHORIZE A US BALANCE OF PAYMENTS LOAN TO PORTUGAL OF

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$300 MILLION IN FY 1978, LEAVING OPEN THE POSSIBILITY OF ADDITIONAL REQUESTS IN THE FOLLOWING TWO YEARS IN THE EVENT OF NEED. EARLY EVIDENCE OF FOREIGN SUPPORT IS CRITICAL TO CONGRESSIONAL APPROVAL. TO THE EXTENT THAT OTHER COUNTRIES ARE UNABLE OR UNWILLING TO MAKE ADDED
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ASSISTANCE AVAILABLE TO PORTUGAL, THE POSSIBLE LEVEL OF U.S. ASSISTANCE MAY DECLINE COMMENSURATELY. WE WOULD NOT EXPECT THE US SHARE OF TOTAL BALANCE OF PAYMENTS LOANS TO BE MORE THAN 40 .

E. THE U.S. IS SEEKING EARLY EXPRESSIONS OF SUPPORT IN COORDINATION WITH AND AT THE REQUEST OF THE PORTUGUESE GOVERNMENT, AND OTHER COUNTRIES. FOR THIS APPROACH WE ENVISAGE THE FOLLOWING POSSIBLE FY 1978 CONTRIBUTIONS, BASED ON A VARIETY OF FACTORS, INCLUDING INDUSTRIAL COUNTRIES' RELATIVE SHARES IN THE IMF AND THE GENERAL ARRANGEMENTS TO BORROW, AND ON ABILITY OR EXPRESSED INTEREST IN PARTICIPATING. ALL FIGURES ARE IN MILLIONS OF U.S. DOLLARS.

| | | | |
|---|---|---|---|
| S. | $300 | NETHERLANDS | 15 |
| GERMANY | 200 | BELGIUM | 10 |
| JAPAN | 50 | CANADA | 15 |
| SWEDEN | 15 | FRANCE | 20 |
| DENMARK | 5 | U.K. | 20 |
| NORWAY | 10 | SWITZERLAND | 10 |
| VENEZUELA | 20 | ITALY | 10 |
| | | AUSTRIA | 5 |
| | | TOTAL | 705 |

F. WE RECOGNIZE THAT SOME PARTICIPATING COUNTRIES HAVE ALREADY PROVIDED SUBSTANTIAL FINANCIAL ASSISTANCE TO PORTUGAL AND ARE PLANNING ON MAKING ADDITIONAL BILATERAL ASSISTANCE AVAILABLE IN FORMS OTHER THAN MEDIUM-TERM BALANCE OF PAYMENTS FINANCING. THE COORDINATED INTER-NATIONAL EFFORT WE ARE PROPOSING, HOWEVER, WILL PROVIDE SPECIAL BALANCE OF PAYMENTS ASSISTANCE ON NON-CONCESSIONAL TERMS AND SHOULD NOT REPLACE OTHER HELP BEING GIVEN BY PARTICIPATING COUNTRIES.

4. ACTION REQUESTED. ACTION ADDRESSEES ARE REQUESTED TO
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APPROACH HOST GOVERNMENTS AT MINISTERIAL LEVEL AND URGE

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THEIR EARLY SUPPORT FOR BALANCE OF PAYMENTS ASSISTANCE TO PORTUGAL AND AGREEMENT TO SEND A REPRESENTATIVE TO AN EARLY MEETING OF THE POSSIBLE PARTICIPANT COUNTRIES- WE SUGGEST A MEETING AT THE IMF WORLD BANK HEADQUARTERS IN PARIS IN MID-MAY. YOU SHOULD MAKE APPROACH AFTER COORDINATING WITH YOUR PORTUGUESE COLLEAGUE WHO HAS RECEIVED SIMILAR INSTRUCTIONS. IF ASKED, YOU MAY DRAW ON THE ILLUSTRATIVE TABLE (PARA 3-E ABOVE) IN SUGGESTING A POSSIBLE LEVEL OF CONTRIBUTION FROM YOUR HOST GOVERNMENT AND THE OVERALL TOTAL WE ARE SHOOTING FOR, BUT DO NOT RELEASE FIGURES FOR OTHER COUNTRIES.

5. FOR LONDON. YOU SHOULD ALSO INFORM THE BRITISH, IN THEIR EC PRESIDENCY CAPACITY, THAT WE PLACE PARTICULAR IMPORTANCE ON EC 9 CONTRIBUTION TO THE INTERNATIONAL LENDING ARRANGEMENT GIVEN THE STAKE BOTH WE AND THE EC HAVE IN THE FUTURE OF PORTUGUESE DEMOCRACY. WE HOPE THE NINE WILL GIVE THE LENDING ARRANGEMENT THEIR FULL BACKING.

6. FOR USEC. YOU SHOULD INFORM THE COMMISSION OF U.S. APPROACHES TO THE EC MEMBER STATES AND THE PRESIDENCY EXPRESSING OUR HOPE THAT THE COMMISSION WILL SUPPORT THE LENDING ARRANGEMENT AND CONTRIBUTE TO IT , BUT NOT REVEALING ANY TARGET FIGURES.
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# Message Attributes

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**Decaption Note:**
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**Disposition Approved on Date:**
**Disposition Case Number:** n/a
**Disposition Comment:** 25 YEAR REVIEW
**Disposition Date:** 22 May 2009
**Disposition Event:**
**Disposition History:** n/a
**Disposition Reason:**
**Disposition Remarks:**
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**Format:** TEL
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**Litigation History:**
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**Original Classification:** CONFIDENTIAL
**Original Handling Restrictions:** n/a
**Original Previous Classification:** n/a
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**Previous Classification:** CONFIDENTIAL
**Previous Handling Restrictions:** n/a
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**Secure:** OPEN
**Status:** NATIVE
**Subject:** FINANCIAL ASSISTANCE FOR PORTUGAL
**TAGS:** EFIN, PO, US, XG
**To:** BERN BONN MULTIPLE
**Type:** TE
**vdkvgwkey:** odbc://SAS/SAS.dbo.SAS_Docs/8c09b1a1-c288-dd11-92da-001cc4696bcc
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